

Message Text

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ORIGIN OPIC-12

INFO OCT-01 NEA-10 ADP-00 EB-11 L-03 AID-20 /057 R

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P 311851Z JUL 73

FM SECSTATE WASHDC

TO AMCONSUL KARACHI PRIORITY

AMEMBASSY ISLAMABAD PRIORITY

UNCLAS STATE 150190

FROM OPIC

E.O. 11652: N/A

SUBJECT: ADVICE TO GENERAL TYRE (COOLEY LOAN NO. 391-E-049-
CREDIT NO. C-91-10)

REF: (A) STATE 103892 (B) ISLAMABAD 4839

1. ALTHOUGH OUR RESEARCH IS STILL INCOMPLETE, STATEMENT SUGGESTED
IN PARA 3, REF A MAY HAVE TO BE QUALIFIED PER REF B AND AS
SUGGESTED HEREIN. WE ARE UNABLE AT THIS TIME TO FIND TREATY
AUTHORITY THAT WOULD SUPPORT ARGUMENT THAT INTEREST EARNED
ON USA PL 480 FUNDS LOANED TO PRIVATE INDUSTRY IN PAKISTAN IS
IS EXEMPT FROM PAKISTAN WITHHOLDING INCOME TAX. TAX STATUS
MAY THUS BE DETERMINED SOLELY BY PAKISTAN. INCOME-TAX ACT
(VII PAKISTAN CODE 104). THAT ACT PROVIDES THAT TAX IS PAYABLE
BY EVERY PERSON OR COMPANY WHO ENGAGES IN EARNING INCOME.
SECTION 60(1), HOWEVER, APPARENTLY ALLOWS THE CENTRAL GOVERN-
MENT TO MAKE CERTAIN EXEMPTIONS FROM SUCH TAX. WE ARE UNABLE
TO DETERMINE AT THIS TIME WHETHER OR NOT SUCH AN EXEMPTION
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HAS BEEN MADE IN REGARD TO USA OR PL 480 LOANS.

2. WE ARE STILL RESEARCHING THE QUESTION PRESENTED USING LIMITED SOURCES AVAILABLE HERE. EMBASSY MAY WISH TO FURTHER RESEARCH THE QUESTION AS WELL. BECAUSE OF THE NATURE OF THE PROBLEM, WE ALSO RECOMMEND GENERAL TYRE BE ADVISED TO OBTAIN AN OPINION FROM LOCAL COUNSEL REGARDING TAX STATUS OF INTEREST UNDER TAX ACT. WITH REGARD TO SUBJECT CREDIT AGREEMENT, WE BELIEVE THE LOCAL LAW REGARDING TAXES IS IRRELEVANT TO THE AMOUNT OF INTEREST TO BE PAID AID SINCE SECTION 2.5 OF THE AGREEMENT REQUIRES THE BORROWER TO PAY ALL TAXES WHICH MAY BE LEVIED ON THE AGREEMENT OR THE IN-DEBTEDNESS EVIDENCED THEREBY.

3. OPIC, DEPARTMENT AND AID LAWYERS EXAMINING PROBLEM AND WILL ADVISE EMBASSY ASAP WHEN MORE IS KNOWN. ROGERS

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